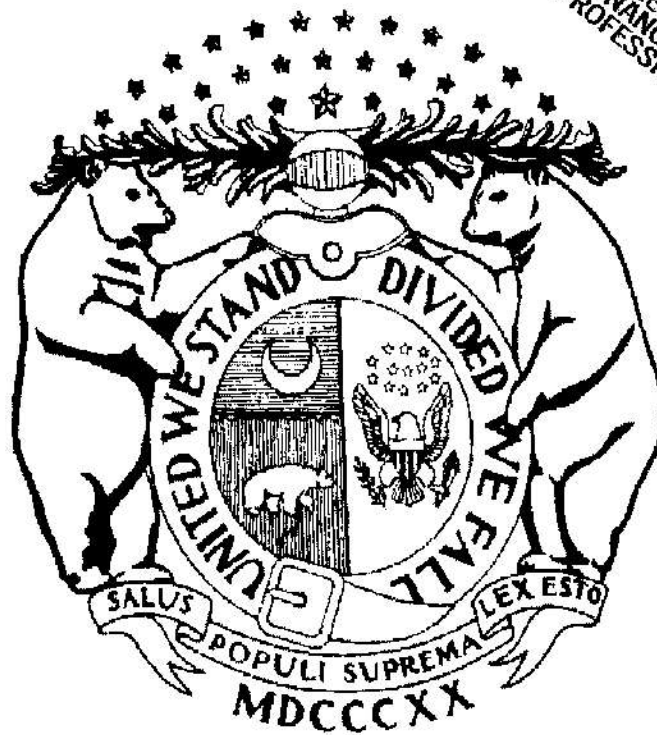


REPORT OF THE
FINANCIAL EXAMINATION OF
BUCHANAN COUNTY MUTUAL
INSURANCE COMPANY

AS OF
DECEMBER 31, 2008

FILED
AUG 24 2009
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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April 24, 2009
St. Joseph, Missouri

Honorable John H. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

BUCHANAN COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 1004 South Belt Highway, St. Joseph, Missouri 64507, telephone number (816) 232-0933. This examination began on March 9, 2009, and concluded on March 13, 2009, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2003 and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2003, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Fidelity Bond

Comment: The Company was directed to increase its fidelity bond coverage to \$75,000.

Company Response: The Company has increased its fidelity bond coverage to \$75,000.

Current Findings: The Company's current fidelity bond coverage level of \$75,000 appeared adequate per suggested NAIC guidelines.

HISTORY

General

The Company was originally organized and incorporated on November 18, 1902, as the Farmers Mutual Fire and Lightning Insurance Company of Buchanan County, Missouri. In 1985, the Company changed its name to Buchanan County Mutual Insurance Company. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Insurance Companies). The Company has a Certificate of Authority dated July 1, 1991, which is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in February at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time, and shall be called upon petition of one-fourth of the members. Eight members constitute a quorum. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month. Agent directors are compensated \$50 per meeting attended, while directors who are not also agents are compensated \$100 per meeting attended. Both types of directors will not be compensated for meeting attendance starting in 2009.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
James Whitson St. Joseph, Missouri	Agent/Farmer	2008-2011
Donald Jordan St. Joseph, Missouri	Agent/Farmer	2009-2012
Charles Spencer Faucett, Missouri	Agent/Farmer	2008-2011
Leroy Clark Easton, Missouri	Agent/Farmer	2009-2012
Don Matthews Rushville, Missouri	Agent	2008-2011
Sherie Gabbert St. Joseph, Missouri	Agent	2007-2010
H. Cecil Callaway Faucett, Missouri	Agent/Farmer	2007-2010
Rodney Fry Dekalb, Missouri	Farm Implement Salesperson	2009-2012
Dean Kerns St. Joseph, Missouri	Stock Broker	2007-2010

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2008, were as follows:

James Whitson	President
Leroy Clark	First Vice-President
Donald Jordan	Second Vice-President
Gaye Black	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. Conflict of interest statements were reviewed for the examination period and no potential material conflicts were disclosed.

Corporate Records

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events. However, the Company does not maintain a comprehensive written document containing its policies and procedures. It is recommended that the Board of Directors put more company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$75,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with an annual aggregate limit of \$3,000,000 and a \$5,000 per loss deductible.

The Company requires its agents to purchase a minimum of \$500,000 in errors and omissions insurance coverage at their own expense.

The Company carries property coverage on its home office and contents, as well as general liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees and one part-time employee. The Company offers its full-time employees a benefits package that includes health and long-term disability insurance, contributions to an SEP retirement plan and paid time off.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and offers liability coverage through Grinnell Mutual Reinsurance Company. The Company's policies are sold by nine licensed agents, who receive a commission of 15%.

Policy Forms and Underwriting Practices

The Company uses Grinnell Mutual Reinsurance Company policy forms. The policies are renewed annually. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by the Company's part-time inspector/adjustor.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2008	\$2,621,134	\$1,047,562	\$2,332,150	\$2,373,930	\$ (366,704)	\$(291,596)
2007	2,948,266	1,083,098	2,448,662	2,394,454	(117,532)	(23,072)
2006	2,799,990	1,063,950	2,390,271	1,700,159	(337,974)	(225,326)
2005	2,969,595	1,008,229	2,274,873	1,464,576	(79,997)	25,104
2004	3,071,136	1,134,874	1,984,804	1,240,150	(153,381)	(31,179)

At year-end 2008, 3,931 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Direct	\$2,332,150	\$2,448,662	\$2,418,676	\$2,302,343	\$1,984,804
Assumed	0	0	0	0	0
Ceded	(599,479)	(497,448)	(445,802)	(344,588)	(293,776)
Net	<u>\$ 1,732,671</u>	<u>\$1,951,214</u>	<u>\$1,972,874</u>	<u>\$1,957,755</u>	<u>\$1,691,028</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has an aggregate excess reinsurance agreement with Grinnell Mutual Reinsurance Company (the reinsurer) for fire and wind risks. The company's annual net retention, or attachment point, is based upon the company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2008 was \$1,658,342 and the annual premium paid was \$1.1059 per \$1,000 of adjusted gross fire risks in force.

The company is approaching non-compliance with 20 CSR 200-12.030 "Extended Missouri Mutual Companies' Financial Reinsurance Requirements." The Company did not meet the criteria in paragraphs (1)(A) and (1)(C) of the regulation and is approaching non-compliance with the remaining paragraph (1)(B). This paragraph requires reinsurance sufficient to prevent a greater than twenty percent (20%) decrease in surplus in any year. Calculations based on the criteria set forth in (1)(B) indicate the Company is approaching the threshold. The Company should review its reinsurance program and take the necessary actions to maintain compliance with 20 CSR 200-12.030.

The company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's accounting firm, Martin and Hanway, CPA's, performs an annual audit of the Company's financial statements and prepares the Company's Annual Statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation).

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ANALYSIS OF ASSETS
December 31, 2008

Bonds	\$ 2,196,382
Real Estate	55,096
Cash on Deposit	91,627
Premiums Uncollected	146,463
Reinsurance Recoverable on Paid Losses	100,033
Computer Equipment	2,427
Interest Due and Accrued	29,106

Total Assets	<u><u>\$ 2,621,134</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Losses Unpaid	\$7,750
Ceded Reinsurance Premium Payable	60,628
Unearned Premium	976,422
Accrued Expenses	2,762

Total Liabilities	\$ 1,047,562

Guaranty Fund	\$ 584,717
Other Surplus	988,855

Total Surplus	1,573,572

Total Liabilities and Surplus	\$ 2,621,134
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Assessments Earned	\$ 1,775,345
Other insurance Income	272,677
Net Losses & Loss Adjustment Expenses Incurred	(1,747,474)
Other Underwriting Expenses Incurred	(667,252)

Net Underwriting Income (Loss)	\$ (366,704)

Investment Income	\$ 75,038
Other Income	70

Gross Profit (Loss)	\$ (291,596)
Federal Income Tax	0

Net Income (Loss)	\$ (291,596)
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	\$ 1,865,168
Net Income (Loss)	(291,596)

Policyholders' Surplus, December 31, 2008	\$ 1,573,572
	=====

NOTES TO FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

Corporate Records (Page 4)

It is recommended that the Board of Directors put more company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

Reinsurance (Page 6)

The Company should review its reinsurance program and take the necessary actions to maintain compliance with 20 CSR 200-12.030.

SUBSEQUENT EVENTS

None.

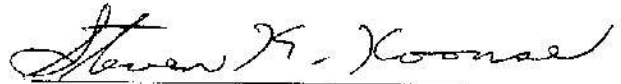
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Buchanan County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Steven K. Koonse, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Steven K. Koonse, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 11th day of May, 2009.

My commission expires:


04/14/2012


Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
County of Clay
My Commission Expires 4/14/2012
Commission # 08464070

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



Shannon W. Schmoeger, CFE
Examiner-In-Charge
Missouri DIFP

Buchanan County Mutual Insurance Company

1004 So. Belt St. Joseph, Mo. 64507
Phone 816-232-0933 • Fax 816-232-9122
Toll Free 800-734-9369



August 17, 2009

Tammy Rodieck, Exam Coordinator
Division of Insurance

Dear Tammy,

We have received the Examination Report of Buchanan County Mutual for the period ending December 31, 2008.

We are currently working on a manual to update the company policies and procedures.

We have reviewed our reinsurance program and will continue to monitor to make sure we maintain compliance.

Sincerely,

A handwritten signature in cursive script, reading "H C Callaway".

H. C. Callaway
Buchanan County Mutual